

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Muskegon County Community Mental Health	County Muskegon
Fiscal Year End 09/30/2007	Opinion Date 02/29/2008	Date Audit Report Submitted to State 03/06/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100		
Street Address 2330 East Paris Avenue SE		City Grand Rapids	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements for the Year Ended September 30, 2007	
Special Revenue Fund Balance Sheet	3
Statement of Revenue, Expenditures and Changes in Fund Balance – Special Revenue Fund – Budget and Actual	4
Statement of Net Assets – Internal Service Fund	5
Statement of Revenue, Expenses and Changes in Fund Net Assets – Internal Service Fund	6
Statement of Cash Flows – Internal Service Fund	7
Statement of Fiduciary Assets and Liabilities	8
Notes to Financial Statements	9-13
Supplementary Information	
Schedule of Capital Assets Used in the Operation of Governmental Funds	14
Internal Control and Compliance	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-17



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

February 29, 2008

To the Board of Community Mental Health
Services of Muskegon County
Muskegon, Michigan

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of **Community Mental Health Services of Muskegon County** (the "Board"), a special revenue fund, internal service fund, and agency fund of Muskegon County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Board's financial statements as listed in the table of contents. These financial statements are the responsibility of Community Mental Health Services of Muskegon County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the funds of the Board and do not purport to, and do not present fairly the financial position of Muskegon County, as of September 30, 2007 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of Community Mental Health Services of Muskegon County, as of September 30, 2007, and the respective changes in financial position and cash flows thereof and the budgetary comparison for the major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2008, on our consideration of Community Mental Health Services of Muskegon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board has not presented Management's Discussion and Analysis as required supplementary information. The Government Accounting Standards Board has determined such information is required to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Community Mental Health Services of Muskegon County's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of Community Mental Health Services of Muskegon County's basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respected, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY
Special Revenue Fund Balance Sheet
September 30, 2007**

Assets

Cash and cash equivalents	\$ 4,146,330
Accounts receivable	384,755
Prepaid items	<u>286,236</u>
Total assets	<u><u>\$ 4,817,321</u></u>

Liabilities and fund balance

Liabilities

Accounts payable and accrued expenditures	\$ 2,977,813
Deferred revenue	<u>271,558</u>
Total liabilities	<u>3,249,371</u>

Fund balance

Reserved for prepaid items	286,236
Unreserved - undesignated	<u>1,281,714</u>
Total fund balance	<u>1,567,950</u>
Total liabilities and fund balance	<u><u>\$ 4,817,321</u></u>

The accompanying notes are an integral part of these financial statements.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY**
Statement of Revenue, Expenditures and Changes in Fund Balance -
Special Revenue Fund
Budget and Actual
For the Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Medicaid fee for service and capitation	\$ 57,527,533	\$ 58,908,604	\$ 59,394,421	\$ 485,817
Intergovernmental:				
Federal	402,586	569,057	415,641	(153,416)
State	8,706,899	7,516,540	7,652,852	136,312
Local	103,400	103,400	96,312	(7,088)
Charges for services:				
Other insurance	1,934,512	2,097,712	2,060,630	(37,082)
Other service fees	-	11,859	11,859	-
Interest	313,800	339,859	350,754	10,895
Other revenues and reimbursements:				
Reinvestment program	781,265	652,676	468,494	(184,182)
Other	602,756	824,856	717,138	(107,718)
Total revenue	70,372,751	71,024,563	71,168,101	143,538
Expenditures				
Health and welfare:				
Personnel costs	19,054,534	18,682,892	18,176,703	506,189
Operating costs	51,802,027	53,142,315	53,766,466	(624,151)
Capital outlay	86,500	86,900	39,974	46,926
Total expenditures	70,943,061	71,912,107	71,983,143	(71,036)
Revenue over (under) expenditures	(570,310)	(887,544)	(815,042)	72,502
Other financing sources				
Transfer in from other funds of Muskegon County	570,310	568,586	568,582	(4)
Transfer in from risk reserve internal service fund	-	-	320,281	320,281
Total other financing sources	570,310	568,586	320,281	320,277
Net changes in fund balance	-	(318,958)	73,821	392,779
Fund balance, beginning of year	1,494,129	1,494,129	1,494,129	-
Fund balance, end of year	\$ 1,494,129	\$ 1,175,171	\$ 1,567,950	\$ 392,779

The accompanying notes are an integral part of these financial statements.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY
Statement of Net Assets
Risk Reserve Internal Service Fund
September 30, 2007**

Assets	
Cash and cash equivalents	\$ 2,047,112
Total liabilities	<u>-</u>
Net assets - unrestricted	<u><u>\$ 2,047,112</u></u>

The accompanying notes are an integral part of these financial statements.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY**
Statement of Revenue, Expenses and Changes in Fund Net Assets
Risk Reserve Internal Service Fund
For the Year Ended September 30, 2007

Operating revenue	\$ -
Operating expenses	<u>-</u>
Operating income	-
Nonoperating income	
Interest	<u>119,650</u>
Net income before transfers	119,650
Transfer out	<u>(320,281)</u>
Change in net assets	(200,631)
Net assets, beginning of year	<u>2,247,743</u>
Net assets, end of year	<u><u>\$ 2,047,112</u></u>

The accompanying notes are an integral part of these financial statements.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY
Statement of Cash Flows
Risk Reserve Internal Service Fund
For the Year Ended September 30, 2007**

Cash flows from operating activities

Receipts from other funds	\$ 6,307
---------------------------	----------

Cash flows from investing activities

Interest income	119,650
-----------------	---------

**Cash flows from non-capital and related
financing activities**

Transfers to other funds	<u>(320,281)</u>
--------------------------	------------------

Net decrease in cash and cash equivalents	(194,324)
---	-----------

Cash and cash equivalents, beginning of year	<u>2,241,436</u>
--	------------------

Cash and cash equivalents, end of year	<u><u>\$ 2,047,112</u></u>
---	-----------------------------------

**Reconciliation of operating income to net cash provided
by operating activities**

Operating income	\$ -
------------------	------

Adjustments to reconcile operating income to net cash provided by
operating activities:

Changes in assets and liabilities which provided (used) cash:

Due from other funds	<u>6,307</u>
----------------------	--------------

Net cash provided by operating activities	<u><u>\$ 6,307</u></u>
--	-------------------------------

The accompanying notes are an integral part of these financial statement.

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY
Statement of Fiduciary Assets and Liabilities
Agency Fund
For the Year Ended September 30, 2007**

Assets

Cash	\$ 258,333
------	------------

Liabilities

Due to clients	\$ 258,333
----------------	------------

The accompanying notes are an integral part of these financial statements.

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Mental Health Services of Muskegon County (the “Board”) was created by resolution of the Muskegon County Board of Commissioners pursuant to Act 54 of the Public Acts of 1963, as amended. The Board, which is composed of certain elected County officials and other individuals, is responsible for serving the mental health needs of Muskegon County residents in accordance with its full management contract with the Michigan Department of Community Health (MDCH) and the Michigan Mental Health Code.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund, an internal service fund, and an agency fund of Muskegon County, Michigan (the “County”) and are an integral part of that reporting entity. The Board is not a component unit of Muskegon County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

For the most part, the effect of interfund activity has been removed from these statements.

Fund Structure

The Board reports the following governmental fund:

Special Revenue Fund – The Special Revenue Fund is the Board’s primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in another fund.

The Board reports the following propriety fund:

Internal Service Fund – The Risk Reserve Fund is used to cover the potential risk of actual expenses associated with the delivery of behavioral health and developmental disabilities services to the Medicaid and uninsured population exceeding a contractual funding level.

Additionally, the Board reports the following other fund type:

Agency Fund – The Agency Fund accounts for resources held on the behalf of others.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenue, charges for services and other revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

Notes to Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to the special revenue fund for risk management. Operating expenses for internal service funds include the cost of claims, administration, and reinsurance. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expense.

Cash and Cash Equivalents – The Board's cash consists of cash on hand, demand deposits and deposits with the Muskegon County Treasurer.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

Budgetary Accounting – The Board's special revenue fund is under formal budgetary control and follows both the County and MDCH's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the MDCH.

Transfer In - County Appropriation – This transfer represents a subsidy provided by the County as a local match for various services.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Board's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a program basis. The approved budgets of the Board for these budgetary funds were adopted at the functional level. For the year ended September 30, 2007, expenditures for the health and welfare function exceeded the final budget by \$117,962.

3. CASH AND CASH EQUIVALENTS

Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$4,146,330	\$2,047,112	\$258,333	\$6,451,775

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

Notes to Financial Statements

Cash and cash equivalents are comprised of the following at year-end:

Cash on hand	\$ 5,200
Deposits (checking and savings accounts)	2,305,445
Deposits with Muskegon County	<u>4,141,130</u>
	<u>\$6,451,775</u>

These deposits are in one financial institution located in Michigan. All accounts are in the name of the County of Muskegon.

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board does not have a policy for deposit custodial credit risk.

Deposits of the Board held by Muskegon County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Board. All accounts are in the name of the Board and a specific fund or common account. They are recorded in the Board's records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

The Board is authorized by the governing body to invest surplus funds, in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/1997.

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

Notes to Financial Statements

4. ACCOUNTS RECIEVABLE

Accounts receivable is comprised of the following at September 30, 2007:

	Special Revenue Fund
Due from consumers	\$ 240,820
Federal grants receivable	89,535
Due from other CMH's	40,100
Interest receivable	14,300
	<u>\$ 384,755</u>

5. ACCOUNTS PAYABLE

Accounts payable is comprised of the following at September 30, 2007:

	Special Revenue Fund	Fiduciary Fund	Total
Due to consumers	\$ -	\$ 258,333	\$ 258,333
Accounts payable	1,747,051	-	1,747,051
Due to other governments	319,035	-	319,035
Accrued wages and related liabilities	911,727	-	911,727
	<u>\$ 2,977,813</u>	<u>\$ 258,333</u>	<u>\$3,236,146</u>

6. PENSION PLANS

Community Mental Health Services of Muskegon County maintains a defined benefit plan for its eligible employees through the County of Muskegon. The Board's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board participates along with Muskegon County in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

COMMUNITY MENTAL HEALTH SERVICES OF MUSKEGON COUNTY

Notes to Financial Statements

Funding Policy - The Board is required to contribute at an actuarially determined rate; the current rate ranges from 0% to 3.91% of annual covered payroll. Employees are also required to contribute at a range between 8.02% and 8.23%. The contribution requirements of the Board are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Board, depending on the MERS contribution program adopted by the Board.

Annual Pension Cost - During the year ended September 30, 2007, the Board made contributions of \$996,191 to the plan, which is based on actuarial projections of funding requirements. Employee contributions for the same period were \$400,407.

Additional historical information is not available for the Boards' participation in MERS because a separate actuarial valuation has not been completed. The actuarial data is included in Muskegon County's valuation.

7. LITIGATION

In the normal course of its activities, the Board has become a party in various legal actions. Management of the Board is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Board and, therefore, has not reflected loss reserves in the financial statements.

* * * * *

**COMMUNITY MENTAL HEALTH
SERVICES OF MUSKEGON COUNTY
Schedule of Capital Assets Used
in the Operation of Governmental Funds
For the Year Ended September 30, 2007**

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>September 30, 2007</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,383,110	\$ -	\$ -	\$ 1,383,110
Furniture and equipment	340,681	-	-	340,681
Vehicles	418,092	133,175	-	551,267
	<u>2,141,882</u>	<u>133,175</u>	<u>-</u>	<u>2,275,057</u>
Total capital assets being depreciated				
	<u>2,141,882</u>	<u>133,175</u>	<u>-</u>	<u>2,275,057</u>
Less accumulated depreciation for:				
Buildings and improvements	1,103,783	19,416	-	1,123,199
Furniture and equipment	122,200	69,730	-	191,930
Vehicles	96,716	92,210	-	188,926
	<u>1,322,699</u>	<u>181,356</u>	<u>-</u>	<u>1,504,055</u>
Total accumulated depreciation				
	<u>1,322,699</u>	<u>181,356</u>	<u>-</u>	<u>1,504,055</u>
Capital assets being depreciated, net	<u>\$ 819,183</u>	<u>\$ (48,181)</u>	<u>\$ -</u>	<u>\$ 771,002</u>

This schedule is presented for purposes of additional analysis, and is used in the preparation of the annual Financial Status Report presented to the Michigan Department of Community Health.

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 29, 2008

To the Board Members of the Community
Mental Health Services of Muskegon County
Muskegon, Michigan

We have audited the financial statements of the major fund and the aggregate remaining fund information of Community Mental Health Services of Muskegon County, (the "Board"), as of and for the year ended September 30, 2007, which collectively comprise the Board's financial statements as listed in the table of contents and have issued our report thereon dated February 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in item 2007-1 to be a significant deficiency in internal control over financial reporting.

Finding 2007-1 – Billing/Accounts Receivable Reconciliation

Criteria:	Management is responsible for establishing internal controls to safeguard the Board's assets, and ensure proper reporting in accordance with GAAP. Part of this responsibility includes the periodic reconciliation of the accounts receivable balance per the billing system to the general ledger
Condition:	The Board has not updated the billing register for amounts billed or collected for several months. Accordingly, the accounts receivable aging report does not agree to or reconcile with the general ledger.
Cause:	Management encountered difficulties during the implementation of a new billing system and has been unable to properly post amounts billed and collected for some time.
Effect:	As a result of this condition, the Board was exposed to increased risk of material misstatement in the financial statements due to the unknown balance of actual accounts receivable at year end.
Recommendation:	We recommend that the Board make the reconciliation of its billing system a high priority. Once complete, we recommend that the subsidiary detail be reconciled to the general ledger on a monthly basis.
View of Responsible Officials:	Management is currently working on this issue, and anticipates completing this process by March 31, 2008.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated February 29, 2008.

The Board's response to the finding identified in our audit is described above. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

February 29, 2008

To the Board of
Community Mental Health Services
of Muskegon County
Muskegon, Michigan

We have audited the financial statements of Community Mental Health Services of Muskegon County for the year ended September 30, 2007, and have issued our report thereon dated February 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Community Mental Health Services of Muskegon County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Community Mental Health Services of Muskegon County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Community Mental Health Services of Muskegon County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Community Mental Health Services of Muskegon County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets for use in reporting to MDCH in the Financial Status Report is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accounts receivable balance is based on expected collections from previous years, and management's belief that any changes to this balance due to unforeseen collections would be immaterial to the financial statements.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Community Mental Health Services of Muskegon County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Community Mental Health Services of Muskegon County, either individually or in the aggregate, indicate matters that could have a significant effect on Community Mental Health Services of Muskegon County's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Community Mental Health Services of Muskegon County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson". The signature is written in dark ink and is positioned below the "Very truly yours," text.

Community Mental Health Services of Muskegon County

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of Community Mental Health Services of Muskegon County as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be significant deficiency is described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Other Matters

Rotation of Accounting Duties

An essential component of internal control is the segregation of the authorization, record-keeping, and custody functions. This minimizes the opportunity for any one employee to perpetrate and conceal fraudulent activity and maximizes the opportunity to identify errors. We noted during our audit that there are certain accounting functions that are not frequently rotated to other individuals throughout the year. While efficiencies can be gained by having the same employee perform similar tasks, it also lends the opportunity for an employee to conceal suspicious activity if another employee never performs the duty. Requiring employees to rotate duties on a periodic basis is a good way for the Organization to have a "second set of eyes" on accounts that may only be reviewed and examined by one individual. This would also decrease the risk of work being back-logged if a particular employee were ill or on vacation.

Community Mental Health Services of Muskegon County
Schedule of Adjustments Passed (SOAP)
For the September 30, 2007 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
Special Revenue Fund					
Estimated unrecorded first and third party payor accounts receivable at year-end	\$ (90,000)	\$ -	\$ (90,000)	\$ -	\$ -